

HEALTHSOUTH Corporation
MEETING OF THE BOARD OF DIRECTORS
AUGUST 26, 2002
MINUTES

A meeting of the Board of Directors of HEALTHSOUTH Corporation (the "Corporation") was held in the Board Room at the Corporation's offices in Birmingham, Alabama pursuant to a Waiver of Notice dated August 26, 2002, a copy of which is attached to these Minutes.

The following Directors were present, constituting a quorum: Richard M. Scrushy, Chairman of the Board and Chief Executive Officer of the Corporation, William T. Owens, President and Chief Operating Officer of the Corporation, Joel C. Gordon, Phillip C. Watkins, M.D., Larry D. Striplin, Jr., George H. Strong, John S. Chamberlin and C. Sage Givens. The following guests were also present: Brandon O. Hale, Executive Vice President – Administration and Secretary, Malcolm E. McVay, Executive Vice President and Treasurer of the Corporation, Weston L. Smith, Executive Vice President and Chief Financial Officer of the Corporation, William W. Horton, Executive Vice President and Corporate Counsel of the Corporation, and Larry D. Taylor, President and Chief Operating Officer – Ambulatory Services of the Corporation, William McGahan, Rod O'Neill, Hugh O'Hare, Scott Wollard, John Wagner and Rick Leaman of UBS Warburg, LLC, and Samuel H. McGarr and Tom Avent of KPMG. With the exception of Mr. Leaman, everyone was physically present in the Corporation's Board Room. Mr. Leaman participated via a telephonic connection whereby everyone could freely hear and speak to one another.

Richard M. Scrushy acted as Chairman of the Meeting and Brandon O. Hale acted as Secretary.

The Meeting was called to order by Mr. Scrushy at 4:00 p.m. C.D.T.

Project Crimson Strategic Alternatives Discussion

UBS Warburg Presentation

Mr. Scrushy asked Mr. McGahan and his associates to lead the Board through a strategic alternative discussion on Project Crimson. UBS Warburg began with a review of a segment valuation and a discussion of ways to improve business focus by considering several alternatives, including the sale of the diagnostic facilities combined with the split off of the surgery centers, the sale of the surgery centers, the spin-off or split-off of the surgery centers (with or without IPO) and the sale of the diagnostic facilities. UBS Warburg then presented to the Board a debt analysis and discussed how the current debt profile impacted the alternatives being considered. In closing, Mr. McGahan and the UBS Warburg team presented a summary of the timeline of events to take place and led a discussion of the key separation decisions that needed to be made by the Corporation.

KPMG Opinion

Mr. Scrushy requested Mr. McGarr and Mr. Avent give their opinion on whether there is a justifiable business reason for either the spin off or split-off of the surgery division, thus allowing a tax-free transaction. Mr. Avent responded that he is very comfortable that there are several justifiable business reasons for the spin-off or split-off transaction which would allow a tax-free transaction to be effected.

CMS Transmittal 1753

Mr. Scrushy asked Mr. Owens to review with the Board the timeline of events resulting from CMS Transmittal 1753. Mr. Owens stated that CMS Transmittal 1753 was posted to Part B carriers only on May 17, 2002 and the Corporation received a copy of the Transmittal from a third party in early June. The Corporation forwarded a copy to Blue Cross of Alabama (the Corporation's fiscal intermediary), who advised the Corporation that the Transmittal did not apply to HEALTHSOUTH. The Corporation requested a formal letter from Blue Cross of Alabama. After not having received one, a meeting was scheduled for July 18, 2002 with CMS and reimbursement representatives from HEALTHSOUTH. That meeting generated more questions than answers. Mr. Owens stated that he had believed the Transmittal might apply to the Corporation's outpatient services in freestanding

outpatient centers. He informed Mr. Scrushy on August 6 that it might apply to such services in freestanding outpatient centers and the impact could be \$15,000,000 - \$20,000,000. Mr. Scrushy stated that he had advised Mr. McVay and subsequently Mr. Owens to go back to CMS for better clarification. The meeting on August 15 did not answer all questions regarding Transmittal 1753, but answered enough questions to allow the Corporation to prepare an analysis of the potential impact.

Mr. Owens advised the Board that he was comfortable with the chronology of events and that the Corporation had been working diligently since the August 15 meeting to assess the impact of the Medicare changes.

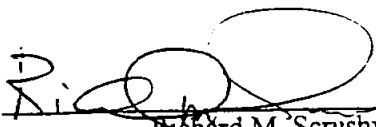
Mr. Scrushy and Mr. Owens advised the Board that the estimated impact on revenue of CMS Transmittal 1753 would be \$175,000,000 per year, and that the Corporation would be putting out a press release disclosing this on Tuesday, August 27.

SCA Update


Mr. Taylor thanked Messrs. Scrushy and Owens and the Board for their support and made comments regarding SCA's management team and updated the Board on current initiatives and development activities.

All guests left the room at this time for the Board to continue discussions regarding Project Crimson and CMS Transmittal 1753. After discussions, the Board, upon motion duly made and seconded, gave preliminary approval to management to proceed with development of a plan for a separation transaction involving the surgery center division. There were no votes cast against the motion. It was noted that the promotions and responsibility changes involving Mr. Owens, Mr. Smith and Mr. McVay that were approved at the August 8 meeting would become effective as of this meeting.

There being no further business to transact, the Meeting was adjourned.


Richard M. Scrushy
Chairman of the Board

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Brandon O. Hale
Executive Vice President – Administration
and Secretary